CLASSIFICATION CONFIDENTIAL CONFIDENTIAL

CENTRAL INTELLIGENCE AGENCY REPORT

INFORMATION FROM
FOREIGN DOCUMENTS OR RADIO BROADCASTS CD NO.

50X1-HUM

COUNTRY	USSR	DATE OF INFORMATION	1947
SUBJECT	Economic - Finance		
HOW PUBLISHED	Monthly periodical	DATE DIST.	DEC 1949
WHERE PUBLISHED	Moscow	NO. OF PAGES	10
DATE PUBLISHED	Oct 1947		
LANGUAGE	Russian	SUPPLEMENT TO REPORT NO.	

THIS IS UNEVALUATED INFORMATION

SOURCE Soretskiye Finansy, No 10, 1947.

50X1-HUM

PLANNING STATE BUDGET REVENUES FROM INDUSTRY

D. Kondrashev

There are two methods of planning the profits of an enterprise: the "direct calculation" method and the coefficient method, which is also called "economic inspection" method.

The direct calculation method is used in small manufacturing enterprises. All products intended for sale (commidity production plus the difference in stocks at the beginning and at the end of the year) are expressed in sales prices, on the one hand, and in costs, on the other. The difference between the two figures is the planned profit.

The cost of products is determined on the basis of costs for the preceding year minus the planned reduction in costs for the current year. In the case of inventory which is carried over from last year, the actual cost is taken as a basis for calculation.

The cost of products which have not been produced before is established by calculations in which the expenditures for separate elements are determined on the basis of estimates which take into consideration the initial period of production in other enterprises manufacturing the same goods.

In the case of products the disposal of which is in accordance with planned losses, the financial results are determined, in contrast to profitable production, on the basis of the planned volume of shipments, which is computed by adding to commodity production the difference in stocks held at the end and beginning of the year.

The coefficient method is used for calculating profits in enterprises and industrial combines which produce a large assortment of products. This method entails the calculation of profits or losses on the basis of last year's average profitableness of commodity production (usually per ruble of sold commodity production in terms of planned commercial cost).

CONFIDENTIAL

CLASSIFICATION CONFIDENTIAL

STATE	X	NAVY	X	NSRB		DISTRIBUTION							
ARMY	X	AIR	X	FBI									

The coefficient method is also used as an auxiliary method in enterprises which employ the direct calculation method of determining profits. The purpose of this is to ascertain the effects of a decrease (or increase) in the relative share in production (ydel'nyy ves) of certain commodities on the rise or fall of profitableness and the extent to which a change in the relative share of a commodity was economically expedient. It must be borne in mind that frequently a shift in the relative share of commodities having different degrees of profitableness, while resulting in higher profits in production, may at the same time bring about a reduction in the turnover tax. Therefore, the question of the economic expediency of raising the relative share of any product must be decided by considering the effect on total accumulation (profit plus turnover tax). In this connection, attention should also be given to cases where the enterprise acts as the payer of deductions from profits and the marketing organization pays the turnover tax.

Controversies frequently arise regarding the advantages of one or the other method of calculating profits. These controversies are pointless. The best method of determining profit is the one which will lead more quickly to the correct result. If it is possible to calculate profits by direct calculation, there is no need to use a more complex method. However, it must be admitted that the direct calculation method is frequently defective in that it shows a higher cost of production and a lower quality of assortment. The coefficient method is directed against such distortions in calculation and prevents the lowering of profits because of shifts in assortment and other factors. Of course, if changes in assortment have been determined by the national economic plan, a correction is entered in the sum of the profits which have been added by the coefficient method. The following example illustrates the way in which planned profits are determined by the direct calculation method.

A plant produces three types of products, A, B, and C. The output of product A is 100 units, of B 200 units, and of C 300 units. All products are sold during the year for which the plan was made.

The cost of product A during the preceding year was 1,000 rubles, of B 2,000, and of C 3,000 rubles.

Stipulated reduction in the cost of product A is one percent, for product B 2 percent, and product C 3 percent. The sales price (without turnover tax) for product A is 1,100 rubles, for B 2,200 rubles, and for C 3,300 rubles.

To arrive at the financial results, it is necessary, first, to compute production costs during the year for which the plan was made. The cost of product A is 990 rubles (1,000 minus one percent), of product B 960 rubles (2,000 minus 2 percent), and of product C 2,910 rubles (3,000 minus 3 percent).

The profit is as follows:

Product	A	(100 x 1,100) -	(100 x 990)	= 11,000
Product	B	(200 x 2,200) -	(200 x 1,960)	= 48,000
Product	C	(300 x 3,300) -	(300 x 2,910)	=117,000
	Total			176,000

The degree of profitableness of the enterprise is determined in percentages reflecting the relationship of profit to the cost of production. In our example the profitableness will be:

Product A $\frac{(11,000 \times 100)}{99,000} = 11.11\%$

Product B $\frac{(48,000 \times 100)}{392,000} = 12.45\%$

Product C $\frac{(117,000 \times 100)}{873,000} = 13.40\%$

The average profitableness of the enterprise will be

$$\frac{176,000 \times 100}{1,364,000} = 12.9\%$$

The example is based on the assumption that all products will be sold. If the plan provides for stocks at the end of the year, the quantity of products involved in the computation of profits will have changed (since part of the production would be transferred to the following year), entailing a corresponding change in the amount of profit. If at the beginning of the year there were also stocks transferred from the preceding year, the profit from their sale is calculated separately, without applying the reduction in cost, since that reduction can only be applied to the output planned for a given year.

The use of the coefficient method in computing planned accumulations is based on the consideration that planned profits for a given year will increase over those of the preceding year proportionately to the increase in the volume of sold commodity production (and for unprofitable enterprises proportionately to the increase in shipped commodities).

Let us suppose that in the plan for 1948 the volume of marketable production, in 1947 costs, is set at 1,500,000 rubles and that the actual volume of 1947 sales amounted to one million rubles in costs of that year. The increase in sales was therefore 50 percent. If in 1947 there was a profit of 100,000 rubles, the planned profits of 1948 should amount to 150,000 rubles. Furthermore, this amount must be increased in accordance with the decrease in the production cost of the products to be sold.

Let us assume that the cost of planned output is reduced by 3 percent. Before determining the net reduction in the cost of marketable products, the effect of transferable stocks must be taken into account. It must be borne in mind that profits are determined with reference to the average yearly cost level of actual production, without taking into consideration stocks transferred at the beginning and end of the year.

If stocks with a higher than average cost for the year were transferred from the preceding year, the percentage of cost reduction will be higher. And, conversely, when stocks with lower costs are transferred, the percentage of cost reduction is lowered.

Let us suppose that the reduction in cost of marketable products is 2.5 percent. The saving from the reduction in our example will amount to 37,500 rubles:

$$\frac{1,500 \times 2.5}{100}$$

In addition to reduction in cost, other factors which affect profits must also be considered, e.g., reductions in sales prices, changes in profitableness due to shifts in assortment, etc.

Let us assume that the sales prices were reduced 2 percent from last year. In our example the decrease in profits will amount to 33,000 rubles, as seen in the following calculation: receipts in sales prices of last year, 1,650,000 rubles (1,500,000 rubles plus 150,000 rubles); 2 percent of this sum is equal to 33,000 rubles.

Let us also suppose that as a result of changes in the relative share of individual groups of products of profitableness of the total production earmarked for sale has increased. To determine the extent to which this increase affects the average percentage of profitableness, the following calculation is made:

Preceding Year (1947)

Group of Products	Proportion of Total Sales	Percent of Profitableness	Coefficient (Columns 3 x 2) / 100
1	2	3	4
A	20	25	5
B	30	10	3
C	50	4	2
	100	10.0	10.0

Year of Plan (1948)

Group of Products	Proportion of Total Sales	Percent of profitableness in Terms of Preceding Year	Coefficient (Columns 5 x 6) / 100
1	5	6	7
A	30	25	7.5
B	30	10	3.0
C	40	4	1.6
	100	12.1	12.1

Thus, given the same profitableness of individual groups of products in two consecutive years, the profitableness of total production rose 2.1 percent (12.1 percent minus 10 percent) because the share of group A changed from 20 to 30 percent and of group B from 50 to 40 percent (the share of group C remained unchanged). Applying this percentage to the volume of sales estimated in costs of the preceding year, we obtain the additional profit of 31,500 rubles.

$$\frac{1,500 \times 2.5}{100}$$ [sic; 2.5 apparently error for 2.1]

Summing up the items of our calculation we obtain the planned profit of 186,000 rubles (150,000 in profitableness of last year, plus 37,500 rubles in savings from the reduction in cost, minus 33,000 rubles of reduction in profits due to the lowering of sales prices, plus 31,500 rubles from the increase in the percentage of profitableness due to the change in assortment).

To the ammount thus obtained it is necessary to add the profit which enterprises obtain from production for which there is no basis for comparison. Let us assume that in the planned calculations the cost of the latter production was estimated at 120,000 rubles (quantity of products multiplied by the cost of each unit), and that the sales price was computed on the basis of a 5 percent profit. Under these conditions profit from this type production is 6,000 rubles:

$$\frac{120 \times 5}{100}$$

Total profit will thus amount to 192,000 rubles (186,000 rubles plus 6,000 rubles).

Discrepancies between the direct calculation method and the coefficient method of determining profits can be corrected by checking the accounts. Methodically accurate calculations must necessarily give the same results in both cases. Unfortunately, there are known cases when insufficiently accurate calculation of profits by the coefficient method undertaken by higher organizations led to grave errors if not checked in time at the enterprise against cost and sales prices. It goes without saying that a "tentative" and approximate method of calculating profits is inadmissible. Such calculations weaken the incentive to increase accumulations in the economy.

Frequently preliminary data concerning the profitableness of production of the preceding year turn out subsequently to be inaccurate. To the extent that this becomes known before the budget is approved, corrections should be entered along two lines, the degree of profitableness and reduction in cost, the two factors being interrelated.

Let us assume that, in the preparation of 1948 financial plan, the percentage of profitableness of production was obtained from the following data for 1947:

	Nine Months (Reported)	Fourth Quarter (Anticipated)	1947
Sales in commercial cost	1,000,000	400,000	1,400,000
Profit from sales	100,000	60,000	160,000
Percentage of profitableness	10	15	11.43

On the basis of the above percentage of profitableness, the volume of production to be sold in cost of the preceding year and the profit from sales were determined in 1948 plan in the following manner:

	1948 Plan
Volume of sales in 1947 costs	2,000,000
Percentage of profitableness	11.43
Profits	228,600
Percentage of cost reduction	2
Savings from cost reduction	40,000
Total planned profit for 1948	268,600

In the 1947 report the following figures on sales and profit are given:

Sales in commercial cost	1,410,000
Profit from sales	150,000
Percentage of profitableness	10.64

It follows that an error of 0.79 percent (11.43 percent minus 10.64 percent) was made in the 1948 estimate of the percentage of profitableness. However, before lowering the planned profitableness of 1948 by this difference, it is necessary to explain first why there was a discrepancy between the estimated percentage of profitableness and the amount of the profit on the one hand, and the reported figures of 1947 on the other.

Let us assume that the difference of 10,000 rubles (160,000 rubles minus 150,000 rubles) in the profits was due to a rise in costs resulting from mismanagement during the fourth quarter and that the 10,000-ruble increase in receipts from the sale of production is explained by this fact and not by an increase in the total volume of goods sold. If this assumption is correct, the planned reduction in costs must also be amended to prevent a possible repetition of mismanagement during the year for which planning is in progress.

The revised calculation of profit will be as follows:

	Preliminary	Corrected
Volume of sales in 1947 costs	2,000,000	2,014,286
Percentage of profitableness	11.43	10.64
Profits	228,600	214,320
Percentage of cost reduction	2	2.7
Savings from cost reduction	40,000	54,280
Total planned profit for 1948	268,600	268,600

Thus, the correction of the percentage of profitableness and of the planned cost reduction also corrected the figure representing the volume of sales in 1947 costs (inasmuch as these costs turned out to be higher than anticipated). The absolute amount of profit computed on the basis of profitableness decreased in the same amount as the savings from cost reduction increased (14,280 rubles). Consequently, the final result remained the same as before the correction.

It must be borne in mind, however, that the percentage of profitableness does not always change with a correction of the financial plan and, consequently, the resulting figures will not necessarily be the same in all cases. Sometimes, corrections in costs are not required at all. However, in cases when it is necessary to correct costs, the financial organizations must consult planning organizations.

* * *

Let us now consider methods of planning cost reduction.

Cost is the most important qualitative index of industrial operation. The good and the bad sides of the economic activities of an enterprise are reflected in costs. Savings from cost reduction increase profits and are an important source for extending socialist reproduction.

Cost is an index of the national economic plan and is determined by planning organizations. In examining the balances of revenues and expenditures, financial organs also analyze the planned cost figures and make corrections which are cleared with the planning organizations. In this work, financial organizations use the control method of determining cost reduction. The essence of this method is as follows:

The report for the preceding year gives the total and a breakdown of expenditures on commodity production. These expenditures increase as the production program expands. Thus, expenditures for commodity production in the year for which the plan is made are obtained by using the norms of the preceding year. After that, necessary reductions in the cost of each item are planned. The total reduction is expressed as a percentage of the expenditures before reduction, and this percentage is the planned cost reduction.

Example: The 1948 production program increased 20 percent over the preceding year. The total sum of expenditures for 1947 was 5 million rubles. Consequently, expenditures for 1948 will amount to 6 million rubles (5 million rubles plus 20 percent). The planned reduction in expenditure (by individual items) is 300,000 rubles. The planned cost reduction for 1948 is 5 percent $\left(\frac{300{,}000 \times 100}{6{,}000{,}000}\right)$. A detailed calculation of the reduction in costs will be as follows (in 1,000 rubles):

Items of Expenditure	Actual 1947 Expenditures	Increase in Production (in percent)	1948 Production Expenditures (Columns 2 x 3)
1	2	3	4
Raw materials	2,000	20	2,400
Auxiliary materials*	500	20	600
Fuel	700	20	840
Wages and extra payments	1,200	20	1,440
Shop expenditures	300	20	360
General plant expenditures	200	20	240
Total production costs	4,900	20	5,800
Commercial expenditures	100	20	120
Total costs	5,000	20	6,000

Items of Expenditure	Planned Reduction by Individual Items	Percentage Reduction By Individual Items $\left(\frac{\text{Column 5} \times 100}{\text{Column 4}}\right)$	Percentage Reduction Total $\left(\frac{\text{Column 5} \times 100}{6{,}000}\right)$
1	5	6	7
Raw materials	-65	-2.71	-1.08
Auxiliary materials*	+30	+5.0	+0.5
Fuel	-70	-8.33	-1.17
Wages and extra payments	-90	-6.26	-1.50
Shop expenditures	-45	-12.5	-0.75
General plant expenditures	-40	-16.66	-0.67
Total production costs	-280	-4.76	-4.67
Commercial expenditures	-20	-16.66	-0.33
Total costs	-300	-5	-5

* [Auxiliary materials (vospomogatel'nyye materialy) are defined as materials which are consumed in the production process but which do not constitute part of the finished product. Slovar' spravochnik po sotsial'no-ekonomicheskoy statistike (Handbook of Social and Economic Statistics), Gospanizdat, 1948, p 145].

The estimated reduction of commercial expenditures and of general plant expenditures is based on the consideration that the absolute sum of expenditures does not rise proportionately to the expenditures of the preceding year; Shop expenditures increased only 15,000 rubles, whereas in terms of the increase in the production program, they should have risen 60,000 rubles. Wages increased only 12.5 percent, in spite of the 20 percent rise in production. Expenditures for raw material and fuel also increased to a lesser degree than production. Only in the auxiliary materials was there a larger percentage increase in expenditures (26.0 percent).

Column 6 of the table shows the percentage reduction in expenditures in relation to the preceding year. The biggest cuts were made in overhead expenditures, which always occurs when the production program is greatly expanded.

The last column represents the planned reduction in costs (5 percent) and the breakdown of this percentage by items of expenditure. Such a breakdown shows the importance of individual items of expenditure in the plan fulfillment.

It must be remembered that the use of the control method of determining cost reduction, in the form in which it is shown in our example, is possible only in cases in which there is no change in the assortment of production during the year for which the plan is made. If there is a change, Column 3 must show the percentage increase of comparable production since this is the only type of production to which planning of cost reduction is applied. If in the year for which the plan is made the enterprise shifts to completely new production, no planned cost reductions are made and the cost level of production is determined on the basis of estimates. Let us examine the way in which a projected reduction in cost is determined.

As far as raw materials, auxiliary materials and fuel are concerned, an accounting is taken of the change in prices, the reduction in the use of these materials and the substitution of one material for another.

If there was no change in prices, no substitution of materials, and if there is no detailed information on the use of material, the total savings are determined in the following manner: overexpenditures in raw materials for the preceding year (not provided for in the plan) are multiplied by the percentage increase in the production program. The amount thus obtained is the planned saving in raw materials.

When a change in prices occurs at the beginning of the year for which the plan is made, it is necessary to make a special calculation in which the amount of required raw material is computed in the old and new prices. The difference must then be added to the sum of expenditures in Column 4 of our example and included in Column 5. On the other hand, if a change in prices occurred before the end of the year and is already partially reflected in the actual expenditures for the preceding year, then it is necessary to add only that part of the price rise which was not entered in Column 4 (from Column 2).

Example: Expenditures on raw materials in 1947 amounted to 1,200,000 rubles, of which 200,000 rubles represented the rise in prices of raw materials on 1 July. The program was increased by 10 percent. The semiannual output of 1947 was about equal. Consequently, the increase in costs by 220,000 rubles (200,000 rubles plus 10 percent) was not taken into consideration in the 1948 expenditure plan, which was calculated at 1,320,000 rubles on the basis of the increase in the production program. Therefore, the total sum of expenditures on raw materials will amount to 1,540,000 rubles, and the increase over the preceding year will be 16.6 percent:

$$\frac{220{,}000 \times 100}{1{,}320{,}000}$$

Changes in expenditures for wages and extra payments depend on the relationship between the rise in labor productivity and the average wages as contemplated by the national economic plan. The productivity per worker is reflected in the average output in unchangeable prices. If the output per worker grows, let us say, by 12 percent, and the average wage increases by 5 percent, the relative share of wages in the cost of production will decrease by the difference in the percentage increase of output and the average wage, i.e., by 7 percent. This is based on the consideration that a 5 percent rise in the production program will involve a proportionate increase in wages, while an increase in output by 7 percent (12.5 percent minus 5 percent) will not demand additional wage payments.

Example: On the basis of figures given below, it is necessary to determine savings in wages in 1948 as compared to 1947 (for the purpose of clarity the number of workers is assumed to be the same in 1948 as in 1947):

	1947	1948	Percent of Growth
Gross output in fixed prices	1,000,000	1,120,000	12
Number of workers	100	100	0
Output per worker	10,000	11,200	12
Wage fund (actual)	600,000	630,000	5
Average wage per year	6,000	6,300	5

Output per worker increased by 12 percent, and since the number of workers remains the same, commodity production increased in the same proportion. The average wage increased by 5 percent, and the wage fund increased by the same percentage.

If we assume that the increase in the wage fund is in the same proportion as the increase in the production program, namely 12 percent, the wage fund for 1948 would amount to $\frac{600,000 \times 112}{100} = 672,000$ rubles. Actually, however, it increased by only 5 percent and is equal to 630,000 rubles. The saving thus amounts to 42,000 rubles (672,000 minus 630,000), a sum which must be taken into account in planning cost reduction.

This sum is equal to 7 percent of the wage fund before the reduction (6,000,000 rubles [sic; should be 600,000 rubles.]) But in relation to the wage fund computed on the basis of the increase in the preceding year's production program, the saving constitutes 6.25 percent: $\frac{42,000 \times 100}{672,000}$.

In planning cost reduction of overhead expenditures it is necessary to group the expenditures of the preceding year according to the degree in which they change with the growth of the production program. For example, such expenditures as maintenance of plant administration do not have to increase at all with an increase in the production program (except in cases where it is necessary to expand personnel.) Certain types of shop expenditures are subject to change depending on the increase in production. However, as a rule, the increase of a large part of expenditures lags considerably behind the growth of the production program.

Example: Shop expenditures in 1947 amounted to 150,000 rubles. Of this sum 50,000 rubles are not subject to change; 50,000 rubles change to the extent of 50 percent of the rise in production; and 50,000 rubles change proportionately to the growth in the production program. Projected increase in production is 20 percent.

CONFIDENTIAL

Let us determine the total shop expenditures for 1947 [sic; should be 1948]:

	Expenditures
Group I	50,000 rubles (no increase over preceding year)
Group II	55,000 rubles ($50 + \frac{50 \times 20}{100} : 2$)
Group III	60,000 rubles ($50 + \frac{50 \times 2}{100}$)
Total	165,000 rubles

Had the rise in all expenditures been proportional to the increase in the production program, total expenditures would have amounted to 180,000 ($150 - \frac{150 \times 20}{100}$).

Consequently, planned savings in shop expenditures will amount to 15,000 rubles, which is also the figure by which shop expenditures in 1948 increase over those of the preceding year. This is an increase of 10 percent, compared to a 20 percent increase in the production program.

- E N D -

CONFIDENTIAL

CONFIDENTIAL

Sanitized Copy Approved for Release 2011/09/13 : CIA-RDP80-00809A000600260980-5